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RUEHCI/AMCONSUL KOLKATA 0957
RUEHLH/AMCONSUL LAHORE 4150
RUEHBI/AMCONSUL MUMBAI 0713
RUEHPW/AMCONSUL PESHAWAR 4662
RUEHIL/AMEMBASSY ISLAMABAD 3999
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 03 NEW DELHI 004512

SIPDIS

SENSITIVE
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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR DHARTWICK/CLILIENTFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE

E.O. 12958: N/A

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
OCTOBER 1-5, 2007

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1. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of October 1-5, 2007.

STRENGTHENING RUPEE HITS
SOUTH INDIAN EXPORTERS

2. (U) South India's exporters are starting to feel the pain of the
strengthening rupee. Local press reported on September 25 that
Indian seafood exports, an INR 80 billion (USD 2 billion) per year
industry, dropped 16 percent in the second quarter compared with the
same period last year, due largely to the rupee's rise. This
sector, especially important in South India, generally sells its
products in dollars while its costs are in rupees. The managing
director of a seafood export promotion agency told Consulate General
Chennai that the strengthening rupee is making it more and more
difficult for exporters and that companies have already started
laying off workers.

3. (U) A separate newspaper report claimed that exports from the
Coimbatore region, an area in the southern India state of Tamil Nadu
known for its textile, tea, motor, and jewellery production, slumped
17 percent in Q2 compared with the same period last year. New
orders have been drying up, and the president of the local export
promotion board told CG Chennai that European knitwear labels,
usually reliable purchasers of the region's products, have started
ordering from lower-cost Indonesia and Thailand instead. Knitwear
producers in the region manufacture a large volume of products for
the U.S. market and have been particularly hard hit. Press reports
say thousands of workers have been laid off.

NEW OIL FIND IN
ANDHRA PRADESH

4. (U) Local press reported on September 23 that Reliance

Industries Limited (RIL) discovered oil in the Krishna basin, just off the coast of the Krishna District in Andhra Pradesh. The seafloor at the drilling site sits under 565 meters of water and the target depth of the well is nearly 3600 meters. This is Reliance's second oil discovery in the area; it also reported a major natural gas discovery nearby in 2002. An RIL manager confirmed the find with CG Chennai, but cautioned that the company was still assessing the size of the reservoir.

KARNATAKA SIGNS E-GOVERNMENT DEAL WITH MICROSOFT

15. (U) Microsoft Corporation signed a letter of intent on September 24 with the Government of Karnataka that will allow the software company to develop e-governance packages for Karnataka's Department of Information and Biotechnology (DIB). Karnataka's Chief Minister told reporters that the department will become paperless by October 11. A DIB official told CG Chennai that Microsoft hopes to use this opportunity to show that it can develop a solution that can streamline a variety of legacy systems and can later be sold throughout the country. He added that Microsoft is only of the companies working on developing e-government solutions for the Karnataka government.

CONTINENTAL CONNECTS GLOBAL FINANCIAL CENTERS IN NEW YORK AND MUMBAI

16. (U) On October 1, Continental Airlines inaugurated its nonstop service between Newark Liberty International Airport and Mumbai Chhatrapati Shivaji International Airport. Initially, Continental plans to offer the service four times a week (Sundays, Mondays, Fridays and Saturdays) and then increase to daily service beginning on October 28. Continental Airlines President Jeff Smisek discussed the benefits of time savings and convenience by adding this nonstop

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service to Mumbai. Mumbai will be the 30th city in Continental's trans-Atlantic route network. Since 2005, Continental has operated the New York-Delhi nonstop service. Smisek also said, "We see significant opportunities for growth on this new route linking America's financial center with India's business and entertainment capital and most populous city." Endorsing this view, Indian Ambassador to the US Ronen Sen had previously said that, "Houston-based Continental Airlines has commenced direct flights to India, and there has been a 60 per cent increase in business visas issued by our Consulate in Houston." The launch of this new nonstop is another significant achievement of the U.S.-India Open Skies Agreement and liberalization of air service between our two countries.

PARAMOUNT PLANS DIRECT FLIGHTS TO UNITED STATES

17. (SBU) M. Thiagarajan, Managing Director of Paramount Airways, told Consulate General Chennai officers that his airline is planning direct flights to the United States beginning in 2010 or 2011. Paramount, a Chennai-based, all business-class airline, currently operates five Embraer aircraft servicing the south Indian states where it has a 26 percent market share. Thiagarajan said the airline plans to add flights "soon" to New Delhi and Mumbai. Visiting the consulate for a visa interview, Thiagarajan said he is in talks with Boeing to purchase an unspecified number of 787 Dreamliners to support proposed Bangalore-San Francisco and Chennai-Boston routes. Thiagarajan was enthusiastic about the Dreamliner, mentioning that the airplane's size and capabilities are perfect for Paramount's all-business class format. Thiagarajan said a Boeing team visited Chennai and he now plans to travel to Seattle to continue discussions.

ANTI-RETAIL MOVEMENT GAINS MOMENTUM

¶8. (U) Following a slew of setbacks for organized retailers in various states, the National Movement for Retail Democracy (NMRD), headed by the Federation of Associations of Maharashtra (FAM) and India FDI Watch, is organizing a large and well-publicized demonstration in Mumbai for October 10. Organizers have said that they expect more than 100,000 farmers, traders, and small retailers to participate. The principal goal of the protests is to get Maharashtra to scrap its Model Agricultural Produce Marketing Committee Act, which permits retailers to set up wholesale markets and buy produce directly from farmers, with a more general demand that big retailers leave the state altogether. NMRD has flagged Reliance and Wal-Mart as specific targets.

¶9. (U) FAM has further lodged public-interest litigation with the Delhi High Court seeking restrictions on foreign cash-and-carry retailers, like Germany's Metro and the eventual Wal-Mart-Bharti outlets. FAM claims that these operations should be able to sell only to retailers, not to other businesses such as hotels and restaurants, which FAM says are consumers.

¶10. (SBU) Secretary General Praveen Khandelwal of the Confederation of All India Traders (CAIT) made plain the anti-corporate movement's intent to take advantage of the sensitivity of the retail issue at a time when political parties are looking toward midterm elections. Khandelwal said that his organization, which will join the October 10 demonstration, has informed all political parties that CAIT's support depends on the parties' stance on organized retail.

(Comment: We believe that although the central government and many state governments favor organized retail, there will be very little overt support for large retailers until elections have passed. Anti-retail elements are deliberately confusing the issues in an effort to involve farmers in their protests and in their rhetoric, even though farmers' incomes stand to increase dramatically with better penetration of organized retail. For now, many Indians seem

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to consider a stance in favor of organized retail to be not only anti-trader, but also anti-farmer, which is causing central and state governments to keep their distance or act on the side of protestors. End comment.) The Economic Times reported that the central government has at least decided that it will not ban corporate retail and that FDI in retail down the road will be necessary to prevent domestic retailers from dominating the market due to lack of competition.

¶11. (U) Reliance Retail continued its retreat from Uttar Pradesh (UP) and West Bengal (WB) this week. The company fired 400 employees in WB and started relocating 700 from UP after laying off almost 900 there last week. The Indian Express quoted an unnamed Reliance official as saying that, from now on, the company will not enter any state if the government cannot promise protection against the kinds of protests and fickle policy shifts that have hounded them in UP and WB. The situation in WB grew more complicated this week when the ruling Communist Party of India (Marxist) shuffled the top three state bureaucrats working on agri-retail and looking at revising the state's Agricultural Produce Marketing Act to allow contract farming, leading the press to believe that there will be no relief for Reliance in the state any time soon. Reliance also announced that it will close its local agricultural collection centers in Punjab, Rajasthan, Madhya Pradesh, and Haryana, which had been procuring for Reliance directly from farmers, and will operate such centers only at the state level.

¶12. (U) Despite its troubles, Reliance has said that it is planning to set up 200 town centers and 665 rural business hubs in 850 towns with fewer than 50,000 people. The Indian Railways have also announced plans to find a private partner to set up a rural agri-retail chain, for which the Railways would provide logistical support and aim to cut down on losses in the supply chain. These developments come on the heels of a joint report from Yes Bank and the Confederation of Indian Industry that indicated that the retail market in rural areas is growing at twice the rate of the market in urban areas.

¶13. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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